FILE COPY

Office Supreme Court,
FILED
NOV 21 1935
CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States.

October Term, 1935.

No. 127.

Radio Corporation of America,

Petitioner,

v.

Raytheon Manufacturing Company,

Respondent.

On Writ of Certiorari to the United States Circuit Court of Appeals for the First Circuit.

BRIEF FOR PETITIONER.

JOHN W. DAVIS,
JOHN L. HALL,
MANTON DAVIS,
CLAUDE R. BRANCH,
Attorneys for Petitioner.

DAVIS, POLK, WARDWELL, GARDINER & REED,
CHOATE, HALL & STEWART,
Of Counsel.

ADDISON C. GETCHELL & SON, LAW PRINTERS, BOSTON.

INDEX.

	Page
Opinions below	1
Jurisdiction	1
Questions presented	2
Statute involved	3
Statement of the case	3
Specification of errors	8
Preliminary analysis and summary of argument	9
Argument	10
I. No issue as to the legality of the contract is raised on the allegations of the pleadings. The issue raised is merely one of respondent's right to rescind the contract for alleged duress	10
(a) The question whether the facts alleged by the respondent are sufficient to raise any question of the legality of the contract, as distinguished from a question of its voidability, is one of practical importance apart from the question of whether the issue is triable at law or in equity	10
(b) The only element of illegality set forth in the respondent's pleadings is entirely dehors the contract	12
(c) Illegality existing dehors the contract and affecting only the motive for its execution may render the contract voidable, but does not render it absolutely void	14
(d) The determination of the Circuit Court of Appeals that the contract was an illegal agreement is based upon a misconception of the facts alleged in the pleadings	22
(e) Summary	25

Page

II. An issue as to the rescission of an instrument under seal, especially where the contract has been executed, is triable in equity. The District Court properly ordered that the case be transferred to equity for preliminary hearing 26

(a) Under the decisions of this Court in Hartshorn v. Day, 19 How. 211, and George v. Tate, 102 U.S. 564, a sealed instrument may be rescinded only in equity 26

(b) Rescission of the present contract presents questions of laches, ratification, change of position and balancing of equities generally, which cannot be dealt with appropriately, except in equity 35

(c) The order for transfer was proper 38

(d) No error appears in the subsequent proceedings 40

Conclusion 42

TABLE OF AUTHORITIES CITED.

A. B. Small Co. v. Lamborn & Co., 267 U.S. 248 17, 18

Adamos v. New York Life Ins. Co., 293 U.S. 386 31

American Mills Co. v. American Surety Co., 260 U.S. 360 32

American Shipbuilding Co. v. Commonwealth S.S. Co., 215 Fed. 296 37

Atlee v. Backhouse, 3 M. & W. 633 29

Barnette v. Wells Fargo Bank, 270 U.S. 438 11, 14, 29

Bennett v. Butterworth, 11 How. 669 30

Brown v. Pierce, 7 Wall. 205 29

Cable v. U.S. Life Ins. Co., 191 U.S. 288 31, 33

Cammack v. Slattery & Bro. Inc., 241 N.Y. 39, 148 N.E. 781 27n.

Page

Chamberlain Machine Works v. United States, 270 U.S. 347 13n.
Cincinnati Packet Co. v. Bay, 200 U.S. 179 20
Columbia-Knickerbocker Trust Co. v. Abbott, 247 Fed. 833 31
Columbia Pictures Corp. v. Bi-Metallic Inv. Co., 42 F. (2d) 873 16n.
Connolly v. Bouck, 174 Fed. 312; certiorari denied, 220 U.S. 610 11, 14
Connolly v. Union Sewer Pipe Co., 184 U.S. 540 17
Continental Wall Paper Co. v. Voight, 212 U.S. 227 20, 21
Cook v. Fidelity & Deposit Company of Md., 167 Fed. 95 36
Dennehy v. McNulta, 86 Fed. 825; certiorari denied, 176 U.S. 683 16
Dunn v. Prudential Ins. Co. of America, 8 Fed. Supp. 799 32
Earl of Chesterfield v. Janssen, 1 Atk. 301 29
Enelow v. New York Life Insurance Co., 293 U.S. 379 7, 31, 39n.
Fairbanks v. Snow, 145 Mass. 153 11n., 28
Fay v. Hill, 249 Fed. 415 37
Fenn v. Holme, 21 How. 481 30
Fox Film Corporation v. Muller, No. 47, October Term, 1935 15n.
Friend v. Pettingill, 116 Mass. 515 27n.
Gasoline Products Co. v. Champlin Ref. Co., 46 F. (2d) 511 19
George v. Tate, 102 U.S. 564 7, 8, 11n., 25, 26, 28, 30, 31, 33, 34
Hartshorn v. Day, 19 How. 211 7, 8, 11n., 25, 26, 28, 30, 31, 32, 33, 34, 36
Hartsville Mill v. United States, 271 U.S. 43 33n.
Hogg v. Maxwell, 218 Fed. 356 28, 31

	Page
Insurance Co. v. Bailey, 13 Wall. 616	31, 33
Keatley v. U.S. Trust Co., 249 Fed. 296; certiorari granted, 247 U.S. 511; withdrawn, 254 U.S. 658	28, 39n.
Lamplugh v. Cox, Dick. 411	29
Levi v. Mathews, 145 Fed. 152	36
Liberty Oil Co. v. Condon National Bank, 260 U.S. 235	2, 6n., 10, 30, 31, 35, 39, 39n., 40
Lindsay v. First Nat'l Bank of Shreveport, 156 U.S. 485	30
Massachusetts Protective Assn. v. Kittles, 2 F. (2d) 211	28, 32
Miller v. Pyrites Co., 71 F. (2d) 804; certiorari denied, 293 U.S. 604	40
Murphy v. People's Equitable Mutual Fire Ins. Co., 7 Allen, 239	27n.
Nat'l Aniline & Chemical Co. v. Arnhold, 298 Fed. 755	32
O. & W. Thum Co. v. Dickinson, 245 Fed. 609; certiorari denied, 246 U.S. 664	19
Pacific Mails S.S. Co. v. Lucas, 258 U.S. 266	33n.
Pacific Mutual Life Ins. Co. v. Webb, 157 Fed. 155	36
Paramount Famous Lasky Corp. v. United States, 282 U.S. 30	15n.
Pringle v. Storrow, 9 F. (2d) 464	28, 33
Radio Corporation of America v. Hygrade Sylvania Corp., 10 Fed. Supp. 879	20
Raytheon Manufacturing Co. v. Radio Corporation of America, 286 Mass. 84, 190 N.E. 1	7n., 11, 37
Ritchie v. McMullen, 159 U.S. 235	13n.
Schnaubert v. Tippett, 29 F. (2d) 230	40
Skinkle v. Lehigh Valley R. Co., 3 Fed. Supp. 326	34
Snyder v. Rosenbaum, 215 U.S. 261	33n.
Stamey v. United States, 37 F. (2d) 188	39n.
Standard Portland Cement Co. v. Evans, 205 Fed. 1	37
Steele v. Drummond, 275 U.S. 199	20

Page

Sumner v. Ferryman, 11 Mod. 201 29
Thompson v. Central Ohio R. Co., 6 Wall. 134 30
Union Pacific R.R. v. Syas, 246 Fed. 561 31, 37, 39, 39n., 41
Union Pacific R.R. Co. v. Whitney, 198 Fed. 784 39
United States v. Paramount Famous Lasky Corp., 34 F. (2d) 984 15n.
Vere Essex, Earl of Ardglasse, v. Muschamp, 1 Vern. 237 29
Virtue v. Creamery Package Mfg. Co., 179 Fed. 115; affirmed, 227 U.S. 8 19
Wagner v. National Life Ins. Co., 90 Fed. 395 34, 35
Whitcomb v. Schultz, 223 Fed. 268; certiorari denied, 238 U.S. 632 28, 38
Whitney Co. v. Johnson, 14 F. (2d) 24; certiorari denied, 273 U.S. 734 39
Wilder Mfg. Co. v. Corn Products Co., 236 U.S. 165 17, 18, 20
Willett v. Herrick, 258 Mass. 585 14, 29
Wolff Packing Co. v. Court of Industrial Relations, 262 U.S. 522 15n.

Judicial Code, sec. 240 (a), as amended by the Act of Feb. 13, 1925 2
Judicial Code, sec. 274 (a) 35
Judicial Code, sec. 274 (b) 2, 3, 6n., 30, 31, 35, 38, 39
Mass. General Laws (Ter. Ed.) c. 231, sec. 34 27n.
Sheppard's Touchstone, 61 29
U.S. Code, Title 48, sec. 1464 33n.
U.S. Code of Laws, Title 15, c. 1, sec. 15 2
U.S. Constitution, art. III, sec. 2 30
U.S. Constitution, Seventh Amendment 31

Supreme Court of the United States.

OCTOBER TERM, 1935.

No. 127.

RADIO CORPORATION OF AMERICA, PETITIONER,

v.

RAYTHEON MANUFACTURING COMPANY,
RESPONDENT.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT.

BRIEF FOR THE PETITIONER.

OPINIONS BELOW.

No opinions were filed by the District Court. The opinion of the Circuit Court of Appeals, which appears at pages 64-76 of the record, is reported in 76 F. (2d) 943.

JURISDICTION.

The decree of the Circuit Court of Appeals was entered April 8, 1935 (R. 77). A petition for rehearing was filed in the Circuit Court of Appeals on April 23, 1935, by the petitioner and was denied May 3, 1935 (R. 77).

The petition for a writ of certiorari was filed in this Court on June 14, 1935, and was granted October 14, 1935 (R. 77).

Jurisdiction is conferred upon this Court by section 240 (a) of the Judicial Code as amended by the Act of February 13, 1925.

The case was begun as an action at law in the District Court for the District of Massachusetts under Title 15 of the Code of Laws of the United States, chapter 1, section 15 (R. 2, 3, 14), to recover damages for alleged violation of the anti-trust laws. The primary question raised before the Circuit Court of Appeals and raised upon this petition is the correctness of an order of the District Court (reversed by the Circuit Court of Appeals) transferring the case to the equity side of the court for a preliminary hearing on the right of the respondent to avoid its sealed release of the cause of action on grounds of duress. *Liberty Oil Co.* v. *Condon National Bank,* 260 U.S. 235. Judicial Code, section 274 (b).

Questions Presented.

Two questions are presented:

(1) Where a contract under seal containing a release is sought to be set aside and rescinded for alleged duress based upon economic pressure, is the issue of the validity of the contract triable on the law side of the court, or should it be tried on the equity side?

(2) Where a license contract containing a release of a claim for damages for violation of the anti-trust laws is otherwise an entirely legal contract, is such a contract shown to be *illegal* solely by reason of the allegation that the contract was executed involuntarily as a result of economic pressure exerted by the possessor of an illegal monopoly?*

* In this brief the second of these questions is discussed first.

Statute Involved.

Section 274 (b) of the Judicial Code provides as follows:

> "In all actions at law equitable defenses may be interposed by answer, plea, or replication without the necessity of filing a bill on the equity side of the court. The defendant shall have the same rights in such case as if he had filed a bill embodying the defense of seeking the relief prayed for in such answer or plea. Equitable relief respecting the subject matter of the suit may thus be obtained by answer or plea. In case affirmative relief is prayed in such answer or plea, the plaintiff shall file a replication. Review of the judgment or decree entered in such case shall be regulated by rule of court. Whether such review be sought by writ of error or by appeal the appellate court shall have full power to render such judgment upon the records as law and justice shall require."

Statement of the Case.

The action is brought against the petitioner, Radio Corporation of America, by Raytheon, Inc., a Massachusetts corporation, under the name of Raytheon Manufacturing Company, which name it had formerly borne (R. 3, 12, 13). The action is alleged to be brought, however, not for the benefit of the nominal plaintiff, but for the exclusive benefit and at the expense of the Raytheon Manufacturing Company (R. 12-13), a Delaware corporation organized by the respondent in May, 1928 (R. 11, 13, 21). The sole cause of action in suit is alleged to be one which accrued to the Massachusetts corporation (the nominal plaintiff) and "wholly existed before May 28, 1928, and before the organization of said Delaware corporation and which said cause of action did on or about May 28, 1928, by understanding and agreement between said two corporations become the

property of said Delaware corporation" (Disclaimer, R. 12). Any other cause of action is expressly disclaimed (R. 13).

The writ, with an *ad damnum* of $15,000,000, is dated December 14, 1931 (R. 1, 2). The declaration contains two essentially similar counts. For present purposes no distinction need be observed between the two. The allegations which seek to establish the cause of action show a scheme, conceived by petitioner about 1926 (paragraph 7 of each count, R. 4-5, 15) to monopolize interstate commerce in radio apparatus and radio communication, carried out by means of the acquisition of patents (paragraphs 8-12 of each count, R. 5, 15-16) and the granting in 1927 of licenses to third parties for the manufacture of radio *sets* containing "tying clauses"* (paragraphs 18-28 of each count, R. 7-8, 17-19), as a result of which respondent's business (the manufacture and sale of radio *tubes*) languished and was totally destroyed by late 1927 or early 1928 (paragraph 34 of each count, R. 10, 20).

The petitioner, in its answer (R. 28), set up among other defenses a release under seal executed by the respondent. This release was incorporated in a license contract (not of the kind alleged to contain "tying clauses") and supple-

---

* It should be borne in mind throughout the case that the license contract in question here, of which the release is a part, executed between the petitioner and the Raytheon Companies in March of 1929 (R. 42-54), is a license for the manufacture of radio *tubes*, and is entirely distinct from the earlier license contracts alleged in the declaration to have been granted by the petitioner in 1927 to *third parties* (manufacturers of radio *sets*), as a step in the creation of the petitioner's alleged monopoly (Declaration, Count I, paragraphs 19-27, R. 7-9; Declaration, Count II, paragraphs 19-27, R. 17-19). The so-called "tying clause" designated as "Clause 9" contained in certain of these *set* licenses issued to third parties in 1927, which related to the purchase by the set licensee of tubes for installation in the sets manufactured by him, has no counterpart in the Raytheon *tube* license.

mental agreement (R. 42-52; 52-54) dated March 19, 1929 (R. 28, 42, 52), under which the petitioner licensed Raytheon Manufacturing Company (of Delaware) to manufacture and sell radio tubes under patents controlled by petitioner.

It is not questioned that the release covered the cause of action sued upon, and its execution is admitted.

The respondent, in fact, by anticipatory pleading in its declaration, affirmatively alleged the execution of this release and then went on to attack its validity on the ground that the contract had been executed involuntarily (paragraphs 35-37 of each count, R. 10, 20-21). The invalidity of the contract was alleged to arise from the fact that the petitioner had perfected a patent monopoly whereby the petitioner exercised an "illegal duress" upon the whole radio industry, that the respondent's business as a manufacturer of radio tubes had been destroyed by May, 1928, as a result of such control of the industry by the petitioner, and that in consequence the Raytheon Companies were driven, in 1929, to seek and accept a license contract from the petitioner, which contract contained the release in question. The specific allegations attacking the validity of the release, appearing in identical language in paragraphs 35, 36 and 37 of both counts of the declaration (R. 10, 20-21), are as follows:

> "35. Wholly because of this destruction and of the illegal duress aforesaid which the defendant had imposed as aforesaid on this industry and this interstate and foreign commerce, the plaintiff and its Delaware corporation were compelled to seek and accept a license from the defendant.
>
> "36. With knowledge of this compulsion and relying on its effectiveness, the defendant exercised its illegally acquired power as aforesaid to compel the plaintiff and its said Delaware corporation to execute a purported release of claims against the defendant.

"37. The illegal duress aforesaid by the defendant rendered said release void and the plaintiff has never executed a valid release of said claim."

In this posture of the pleadings, the petitioner made a motion for a transfer of the cause to the equity side of the court for a preliminary hearing on the issue raised by the respondent as to the validity of the release (R. 28-29). The grounds of the motion in substance were that the execution of the release was admitted; that the release was under the respondent's seal by adoption; and that, being under seal, the contract could not be set aside for duress except in equity, wherefore the issue should be tried in equity * (R. 28-29).

After a hearing, at which the release contract itself was introduced in evidence and inspected by the court (R. 41), the motion for transfer was granted on November 8, 1932 (R. 30). The respondent excepted (R. 30, 41). No question was raised by the respondent as to the fact that the release was under the respondent's seal by adoption and no evidence on the point was offered. The question is not referred to in the respondent's bill of exceptions (R. 41) or in its assignments of error (R. 61).

By amendment to its answer, the petitioner set up that the Raytheon Companies for more than two years since the execution of the license contract, and up to the time of the bringing of the action, had accepted and affirmed the contract which is sought herein to be repudiated, and, in par-

* The petitioner took the position that the respondent's anticipatory replication attacking the validity of the release set up an equitable defense (Judicial Code, section 274 (b)) to the release contract pleaded by the petitioner, or, in the alternative, that this anticipatory replication was properly equivalent to an equitable prayer for cancellation of the release, and that the proper practice required that the case be transferred to equity for a preliminary hearing on this issue. *Liberty Oil Co.* v. *Condon Bank*, 260 U.S. 235. The District Court so ruled (R. 30, 41).

ticular, that the Delaware Raytheon Company, for whose sole benefit the present action is alleged to be brought, had brought suit in the Massachusetts courts to enforce the contract and to enjoin the petitioner from terminating it* (R. 31-34).

After subsequent proceedings, including the denial of a motion by the respondent for jury issues in equity (R. 31, 35-36, 54-55), and the denial of a further motion by the respondent to rescind the order of transfer (R. 36, 37, 55), the *respondent itself* moved for the entry of a final decree in equity (R. 38, 39), and on February 19, 1934, a final decree was entered affirming the validity of the release and transferring the case back to the law side for further proceedings (R. 39-40). From this decree the respondent appealed (R. 40).

The Circuit Court of Appeals entertained the appeal under the decision of this Court in *Enelow* v. *New York Life Insurance Co.*, 293 U.S. 379 (R. 68-69), and vacated the orders and decrees of the District Court (R. 77). The court held, in the first place, that the correctness or incorrectness of the proceedings in the District Court depended upon the correctness of the original order of transfer to equity. If that order was correct, no error was found in the subsequent proceedings (R. 70). The court held, however, that the transfer was wrong because the issue raised as to the validity of the release was legal and not equitable. This conclusion appears from the opinion of the court to have been based upon the following considerations:

(*a*) The court expressed great doubt as to whether the decisions of this Court in *Hartshorn* v. *Day*, 19 How. 211, and *George* v. *Tate*, 102 U.S. 564, were still controlling (R.

* This case is reported in *Raytheon Manufacturing Co.* v. *Radio Corporation of America*, 286 Mass. 84, 190 N.E. 1. Pursuant to this decision, the Raytheon Company was granted an injunction which enjoins the Radio Corporation from terminating the very contract now claimed to be illegal and void.

72-73). It was held in those cases that, where a contract under seal was attacked for invalidity which rendered the contract voidable rather than void, the issue, not being available under the legal plea of *non est factum*, was triable only in equity. The refusal of the Circuit Court of Appeals to follow those decisions appears to have been based partly upon a reluctance to recognize any substantial distinction between sealed instruments and unsealed instruments (R. 73, next to last paragraph) and partly upon the conclusion that those cases had in effect been discredited by subsequent decisions of this Court (R. 73, last paragraph).

(*b*) The court recognized the existence of an irreconcilable conflict in the decisions in the lower federal courts upon the whole question of setting aside releases, both sealed and unsealed, in actions at law (R. 75).

(*c*) The court took the view that the license contract containing the release was not merely voidable for duress, but was *void* for *illegality* (R. 74-75). This view was based upon a misconstruction of the pleadings (see pp. 22-24, *infra*).

Specification of Errors.

The Circuit Court of Appeals erred—

(1) In refusing to follow the decisions of this Court in *Hartshorn* v. *Day*, 19 How. 211, and *George* v. *Tate*, 102 U.S. 564.

(2) In holding that a contract under seal can be avoided or rescinded for economic duress on the law side of the court.

(3) In holding that the license contract containing the release was an illegal agreement and accordingly *void*.

(4) In reversing the order of the District Court for transfer of the case to equity for a preliminary hearing upon the issue of the validity of the release.

Preliminary Analysis and Summary of Argument.

Two questions are presented here. The first is whether the respondent has raised an issue of illegality or merely an issue of simple duress—*i.e.*, do the respondent's pleadings raise any question as to the legality of the contract or show any ground for holding that the contract is more than merely *voidable*? The second question is whether, if the issue is one of the respondent's rights to rescind a voidable contract under seal, the issue is triable at law or in equity.

On the first question the petitioner contends that there is nothing in any pleading to impugn the legality of the contract. It is not suggested that any of the terms of the contract are illegal or improper or that any invalidity is disclosed within the four corners of the instrument. Neither is there any allegation whatever as to the practical effect of this contract, either for good or ill, on respondent's business. The respondent's attack upon the release is based solely upon circumstances existing before the contract was made and surrounding its execution. The only element of illegality relied on is illegality existing independently of this contract and entirely *dehors* the instrument. Under principles of law repeatedly enunciated by this Court, illegality *dehors* the contract does not convert an otherwise legal contract into an illegal one. Even if the release may have been rendered *voidable* because improper methods were allegedly used to compel its execution, it cannot be held to have been absolutely void.

On the second question the petitioner contends that, if the contract was voidable only, and not void, the respondent's attempt to escape its obligations thereunder necessarily amounts to a prayer for rescission. It is familiar law that a contract, which is merely voidable because of some defect affecting its execution, stands as a valid and

subsisting agreement unless and until it is avoided or rescinded. The respondent's claim that the release was invalidated for duress affecting its execution is, therefore, in legal effect a prayer for rescission of a subsisting contract. Since the contract in question is under seal, the petitioner contends that under the controlling decisions of this Court an attempt by the respondent to rescind the contract (also involving questions of ratification, election, laches and such matters) presents an issue which can only be tried in equity. The issue being equitable, the petitioner had the right to insist that it should be tried in the proper forum (that is to say, on the equity side of the court), and the District Court properly transferred the case to the equity side for preliminary hearing on this issue in accordance with the practice established pursuant to the decision of this Court in *Liberty Oil Co.* v. *Condon National Bank,* 260 U.S. 235, *supra.*

Argument.

I.

No issue as to the legality of the contract is raised on the allegations of the pleadings. The issue raised is merely one of the respondent's right to rescind the contract for alleged duress.

(*a*) *The question whether the facts alleged by the respondent are sufficient to raise any question of the legality of the contract, as distinguished from a question of its voidability, is one of practical importance apart from the question of whether the issue is triable at law or in equity.*

A contract which is contrary to law is, of course, a nullity. It is *void ab initio.* It has no legal effect and the parties cannot give it such effect. On the other hand, a contract which is in itself legal, but which has been improperly obtained through fraud or duress, is generally not void,

but is voidable only.* The right to rescind or avoid such a contract is, however, not an absolute right, but a qualified right; the party seeking to rescind must act with reasonable promptness and must act consistently. He cannot affirm the contract and accept its benefits and thereafter attempt to repudiate it.

Barnette v. *Wells Fargo Bank,* 270 U.S. 438, 444, 446.

Connolly v. *Bouck,* 174 Fed. 312 (C.C.A. 8); certiorari denied, 220 U.S. 610.

In the present case the respondent is attempting to set aside a contract of which it has already had the benefit. Its Delaware affiliate (for whose sole benefit the present action is brought, Respondent's Disclaimer, R. 12-13) has maintained a suit enforcing the contract against the petitioner (R. 32-33). See *Raytheon Mfg. Co.* v. *Radio Corporation of America,* 286 Mass. 84, 190 N.E. 1. If the contract was merely voidable, it is difficult to see upon what basis the respondent could hope to establish any right to rescission in the face of an apparently conclusive election to affirm and adopt the contract. The respondent's attempt

* There are, of course, instances where fraud in the *execution* of a contract, as distinguished from fraud in the *inducement,* will prevent the formation of any contract at all, as, for example, where one paper is substituted for another so that the party signing never intended to execute the contract. Such fraud, going to the legal existence of the contract itself, renders the contract absolutely void. *Hartshorn* v. *Day,* 19 How. 211, 223; *George* v. *Tate,* 102 U.S. 564, 570. So also duress might prevent the formation of a contract if it went the length of preventing the consummation of a legal act, as where a man's hand is taken and compelled to write his name. See *Fairbanks* v. *Snow,* 145 Mass. 153, 154. But no such situation is presented here.

Authorities in support of the well-settled rule that, like ordinary fraud, duress, falling short of physical compulsion, renders a contract voidable and not void are cited at p. 14, *infra.*

to read into the pleadings in this case an issue as to the legality of the contract is therefore a plain attempt to escape the consequences of its own conduct and to enable it to repudiate its obligation after having secured the benefit of the agreement. Thus the respondent, having successfully demanded in one court that the contract be enforced in its favour, now asks this Court to rule that it would be against public policy and a violation of law for the contract to be enforced by any court.

The reasoning of the Circuit Court of Appeals, giving colour to this claim of the respondent, will necessarily, unless modified by this Court, affect the further conduct of the case far beyond the immediate question of trying in law or in equity. The broad question is whether the respondent, if it establishes the facts alleged in its pleadings, will have on either side of the court an absolute right to escape its obligation on the ground that it was illegal and a nullity, or whether such right is in the nature of a right to rescission and therefore qualified by well-settled equitable principles such as laches and the election of remedies.

(*b*) *The only element of illegality set forth in the respondent's pleadings is entirely dehors the contract.*

The ground under which the respondent attacks the release is that its execution was involuntary. The charge is that a year prior to the execution of the release the petitioner had illegally destroyed the respondent's business; that as a result of this destruction and the "illegal duress" exercised by the petitioner upon the radio industry the respondent was "compelled to seek and accept a license" from the petitioner; that the petitioner "exercised its illegally acquired power" to compel the respondent to execute a release; and that "the illegal duress aforesaid . . .

rendered said release void'"* (Declaration, Count I, paragraphs 35-37, R. 10; Declaration, Count II, paragraphs 35-37, R. 20-21).

In all these allegations there is no suggestion whatever that any element of illegality is disclosed within the four corners of the instrument. It is not charged that the agreement taken by itself, was a contract in restraint of trade or that it contravened any law. It is not suggested that any of its provisions were illegal or that any of them were in any way unreasonable, unfair or oppressive in operation. Indeed, the pleadings are entirely silent as to the practical effect of this license contract, either for good or ill, upon respondent's business. In short the instrument, in and of itself, is accepted as a perfectly proper agreement.

The alleged invalidity of the contract is charged to arise wholly from circumstances *dehors* the instrument itself. The charge is that the contract was executed involuntarily, that the respondent's consent thereto was improperly obtained. The issue is directed exclusively to the circumstances surrounding the execution of the contract and to the factors which allegedly affected and overbore the respondent's free will. These matters were obviously and necessarily extraneous to the agreement itself. They existed prior to the making of the contract and independently of it. Otherwise they could not possibly have impelled its execution.

So also the only specific charge of illegality made by the pleader refers, not to the contract itself (which is nowhere characterized as an illegal agreement), but to the external situation which gave rise to the contract. The

* The allegation that as a result of the alleged duress the release was "void" is plainly a mere conclusion of the pleader and therefore inconclusive. The question whether the contract is void or voidable depends upon the legal effect of the facts pleaded. *Ritchie* v. *McMullen,* 159 U.S. 235, 241-242; *Chamberlain Machine Works* v. *United States,* 270 U.S. 347.

pleader alleges that the contract was executed under "illegal duress." It is the duress, not the contract, which is alleged to have been contrary to law.

Thus, on the pleadings, there is no suggestion that the contract created or promoted an illegal situation. At the most, the charge is that the respondent's motive for signing the contract was influenced by an extraneous illegal situation, existing independently of the contract.

(c) *Illegality existing dehors the contract and affecting only the motive for its execution may render the contract voidable, but does not render it absolutely void.*

We have already referred to the well-settled rule that, where the execution of a contract is improperly obtained through the exercise of duress (at least where the duress falls short of actual physical compulsion), the contract is not *void,* but is only *voidable,* and the party who has been wronged has the option either to affirm or disaffirm the contract at his election.

Barnette v. *Wells Fargo Bank,* 270 U.S. 438, 444, *supra:*

> "Acts induced by duress such as is here relied on, which operates only on the mind and falls short of actual physical compulsion, are not void in law, but are voidable only, at the election of him whose act was induced by it. *Andrews* v. *Connolly,* 145 Fed. 43, 46; *Miller* v. *Davis,* 52 Colo. 485, 494; *Eberstein* v. *Willetts,* 134 Ill. 101; *Fairbanks* v. *Snow, supra* [145 Mass. 153]; *Miller* v. *Lumber Co.,* 98 Mich. 163; *Oregon & P. R. R. Co.* v. *Forest,* 128 N. Y. 83."

See also—

Willett v. *Herrick,* 258 Mass. 585, 603.

Connolly v. *Bouck,* 174 Fed. 312 (C.C.A. 8); certiorari denied, 220 U.S. 610, *supra.*

The only possible ground for suggesting a distinction in the present case is that the duress relied upon is charged to have been "illegal duress." That is to say, the respondent charges that the duress allegedly exercised by the petitioner involved the commission of certain illegal acts. This circumstance is, however, plainly inconclusive, because the commission of an illegal act is typical in cases of duress. Duress is almost invariably illegal. It is illegal to assault a man or to threaten him with a bludgeon or a gun, but a contract induced by such means is plainly not an "illegal" contract. So also in cases of fraud. Obtaining property by false pretenses is a crime, and one who obtains a sale of property or a contract by fraudulent representations may be liable to prosecution. But a contract so obtained is not "illegal." It is not void, but merely voidable at the option of the party whose consent was thus improperly obtained.*

---

* If coercion were used to compel the execution of a contract containing illegal or oppressive terms, or if the practical effect of a contract obtained by coercion were to restrain trade, the contract might well be rendered illegal. An illustration of such a situation is presented in *Paramount Famous Lasky Corp.* v. *United States,* 282 U.S. 30, involving a compulsory arbitration clause contained in the standard form of motion picture exhibition contract. This compulsory arbitration clause included a provision by which an exhibitor's refusal to arbitrate or a refusal to abide by an award in connection with a dispute arising under any one of his contracts with any distributor automatically subjected the exhibitor to drastic penalties under all his contracts with all other distributors. The District Court found that the effect of this clause, when imposed by compulsion upon exhibitors, was oppressive and illegal (34 F. (2d) 984). This Court affirmed that conclusion. Cf. *Wolff Packing Co.* v. *Industrial Relations,* 262 U.S. 522. A case involving the question whether the illegality of this arbitration clause is separable from other provisions of the same contract or vitiates the agreement *in toto* is now pending before this Court. *Fox Film Corporation* v. *Muller,* No. 47, October Term, 1935.

The present case presents an entirely different problem, since no such provision is involved and since there is an entire absence of anything to show that in practical operation this contract was not

The distinction between illegality *inherent* in a contract and illegality *dehors* a contract which is merely *collateral* thereto has been often recognized in cases dealing with monopolies of the same type as that said to exist here.

In *Dennehy* v. *McNulta,* 86 Fed. 825; certiorari denied, 176 U.S. 683, the plaintiff sought to avoid a contract made by him with a party to an alleged conspiracy in restraint of trade on the ground that the contract had been made involuntarily under the economic necessity of dealing with the defendant. The Circuit Court of Appeals for the Seventh Circuit held that this charge did not render the contract illegal, saying (86 Fed. 825, 827):

> ". . . the mere fact that the corporation, as one of the contracting parties, may constitute an unjust monopoly, and that its general business is illegal . . . cannot serve, ipso facto, to create default or liability on its contracts generally; nor can such fact be invoked collaterally to affect in any manner its independent contract obligations or rights."

The court also said (p. 829):

> "At the utmost, the circumstances here assumed show an urgent need for the goods to keep up their stock and continue in trade, and to that end a business necessity to make their purchases from the illegal combination, because it so far controlled the market that they had reason to fear disastrous results if supplies were sought elsewhere. However urgent this need may have seemed

---

entirely favourable and fair to the licensee. In this situation no question arises as to the separability of the contract because no part of it is shown to be improper. Cf. *Columbia Pictures Corp.* v. *Bi-Metallic Inv. Co.,* 42 F. (2d) 873 (D.C. Colo.), where the motion picture contract was held to be separable, and, the illegal provision being thus out of the way, the balance of the contract was held to be valid notwithstanding charges of duress.

for preservation of business interests, it cannot operate to change the payment made upon such purchases from the voluntary character impressed by the contract into the involuntary payment which may be reclaimed. *Emery* v. *City of Lowell,* 127 Mass. 138, 140; *Custin* v. *City of Viroqua,* 67 Wis. 314, 320, 30 N. W. 515, and cases cited; 6 Am. & Eng. Enc. Law, 71."

The mere fact that one of the parties to a contract is also a party to an illegal combination in restraint of trade is immaterial; in order to repudiate a contract for illegality it must be shown that the illegality relied on is inherent in the particular contract in question.

Connolly v. *Union Sewer Pipe Co.,* 184 U.S. 540.
Wilder Mfg. Co. v. *Corn Products Co.,* 236 U.S. 165.
A. B. Small Co. v. *Lamborn & Co.,* 267 U.S. 248.

In the *Connolly* case the plaintiff sued to recover the price of pipe sold. Defendant set up that plaintiff was a combination illegal under the Sherman Act and that the action was to recover for pipe "sold to the defendant by the plaintiff, then and there acting and doing business as such a combination, as aforesaid, in violation of the provisions of said act" (184 U.S. 543). In other words, the allegation was made that the contract of sale was a part of the conduct made illegal by the statute. The Court assumed that the statute had been violated, but held that there could be recovery. It was pointed out that, in spite of the allegation, the contract of sale was collateral only to the illegal combination and so was not tainted by its illegality. The Court said (at p. 551):

"So that there is no necessary legal connection here between the sale of pipe to the defendants by the plaintiff corporation and the alleged arrangements made by

it with other corporations, companies and firms. . . . That combination may have been illegal, and yet the sale to the defendants was valid."

In *Wilder Mfg. Co.* v. *Corn Products Co.*, 236 U.S. 165, *supra*, where the same situation was presented, the Court reiterated its holding in the *Connolly* case and expressly pointed out that the fact that a contract might be beneficial to the possessor of a monopoly does not import the illegality of the monopoly into the contract. The Court said (at p. 172):

". . . And this is but a form of stating the elementary proposition that courts may not refuse to enforce an otherwise legal contract because of some indirect benefit to a wrongdoer which would be afforded from doing so or some remote aid to the accomplishment of a wrong which might possibly result—doctrines of such universal acceptance that no citation of authority is needed to demonstrate their existence, especially in view of the express ruling in *Connolly* v. *Union Sewer Pipe Co.*, 184 U.S. 540, applying them to the identical general question here involved."

The same decision was likewise reached in *A. B. Small Co.* v. *Lamborn & Co.*, 267 U.S. 248, *supra*. Here the defendant set up as a defense to an action to recover for goods sold that the seller was a member of a combination illegal under the anti-trust laws and "that the seller conformed the terms of sale to standards sanctioned by the combination" (p. 252). Again the Court held the defense unavailing, and said (at p. 252):

"As has been pointed out in prior cases, there is nothing in the Anti-Trust Act which invalidates such a collateral contract or relieves the buyer from his

obligation under it. *Connolly* v. *Union Sewer Pipe Co.*, 184 U.S. 540, 550-552; *Continental Wall Paper Co.* v. *Voight*, 212 U.S. 227, 257-259; *Wilder Manufacturing Co.* v. *Corn Products Co.*, 236 U.S. 165, 177. It is only where the invalidity is inherent in the contract that the Act may be interposed as a defense."

These principles apply with equal force to a patent license.

Gasoline Products Co. v. *Champlin Ref. Co.*, 46 F. (2d) 511 (D.C. Me).

No distinction can be drawn between the contracts considered in these cases and the tube license agreement which contained the release in the case at bar. In the cited cases the plaintiffs made the contracts in the course of the business which they had monopolized in violation of the statute. In each instance the pleader did his best to show that the contract was part of the general illegal activity of the plaintiff. In each instance this was held to constitute no defense. The allegations of the present declaration do not go as far as those there considered.

The respondent argues that it would be "against public policy" for this Court to assist the petitioner, as the alleged possessor of an illegal patent monopoly, by enforcing the license contract in question. Apart from the fact that the respondent has already induced another court to enforce the same contract for its own benefit, the short answer to this contention is found in the settled rule that the petitioner could have brought suit to prevent the respondent from infringing its patents, and the charge of monopoly would have been no defense in such a suit.

Virtue v. *Creamery Package Mfg. Co.*, 179 Fed. 115 (C.C.A. 8); affirmed, 227 U.S. 8.

O. & W. Thum Co. v. *Dickinson*, 245 Fed. 609 (C.C.A. 6); certiorari denied, 246 U.S. 664.

Radio Corporation of America v. *Hygrade Sylvania Corp.*, 10 Fed. Supp. 879 (D.C. N.J.), and cases cited.

On the contrary, the law does not favour a party who, after receiving the benefits of a contract, seeks to repudiate the burdens on the ground that the entire contract is illegal.

Steele v. *Drummond*, 275 U.S. 199, 205.
Cincinnati Packet Co. v. *Bay*, 200 U.S. 179.

Such a party must make a very clear showing of illegality. No such showing has been made here.

The respondent relies upon the decision of this Court in *Continental Wall Paper Co.* v. *Voight*, 212 U.S. 227. That decision, however, merely illustrates the essential distinction between illegality inherent in the contract and illegality *dehors* the contract. The decision in the *Voight* case holding the contract there in question to be void was based upon the fact that the contract there in question contained in itself illegal elements. This was carefully pointed out by Mr. Chief Justice White in the *Wilder Mfg. Co.* case. Referring to the *Voight* case, he said (236 U.S. 165, 177):

> ". . . the ruling in that case was based not upon any supposed right to import into a legal and valid contract elements of wrong which there was no right to consider, but was rested exclusively upon elements of illegality inhering in the particular contract of sale in that case which elements of illegality may be thus summarized: (a) the relations of the contracting parties to the goods sold, (b) the want of real ownership in the seller, (c) the peculiar obligations which were imposed upon the buyer, and (d) the fact that to allow the nominal seller to enforce the payment of the price would have been in and of itself directly to sanction and give

effect to a violation of the Anti-Trust Act inhering in the sale."

In connection with the *Voight* case, it should be observed that Mr. Justice Holmes, in a dissenting opinion in which Mr. Justice Brewer, Mr. Justice White and Mr. Justice Peckham concurred, took up the question of duress, an aspect of the case not considered in the majority opinion. He concluded that, even if a case of duress could have been made out, it would not avail the defendant, who had received and retained the benefit of the contract (212 U.S. 227, 271-272).

"Perhaps, in order to answer every aspect that this rambling defense presents, I ought to say in conclusion that the allegations that the price was unreasonable, and that the plaintiff threatened and had power to drive jobbers out of business that did not come into its arrangement, is not stated in such form as to make a case of duress. I think that that would have been the strongest ground on which the defense could have been put. Courts and legislation sometimes have recognized that the so-called freedom to contract or not may be made illusory by the economic situation of one of the parties. *Schlemmer* v. *Buffalo, Rochester & Pittsburg Ry. Co.*, 205 U. S. 1, 12. It would be extending the recognition further than it yet has been extended, so far as I am aware, to apply it to a case like this. But I express no opinion upon its possible application because, as I have said, the allegations are not directed to that end, and do not sufficiently show that the specific purchases were induced by fear. *Moreover, as such duress, like fraud, goes only to motives,* The Eliza Lines, *199 U. S. 119, 131, if the frightened or defrauded party would rescind he must restore the consideration, or at least be ready to pay the reasonable price, of neither of which is there any hint.*" [Italics supplied.]

This amounts to an express recognition of the fact, which the majority opinion in no way disputes, that duress involving the exercise of illegal and monopolistic powers is not different from any other kind of illegal duress. While it may give rise to a right of rescission, it does not *of itself* render a contract illegal or void.

(*d*) *The determination of the Circuit Court of Appeals that the contract was an illegal agreement is based upon a misconception of the facts alleged in the pleadings.*

The Circuit Court of Appeals, in holding that the release was an illegal agreement and therefore not to be enforced, wholly misconstrued the allegations of the declaration. This misapprehension appears in the following statements made by the court:

> "The plaintiff's declarations set up as a cause of action a contract made in violation of the anti-trust laws,—a contract which is declared by a statute to be illegal. . . . Duress is a ground upon which the plaintiff seeks to avoid the consequences of his own act in entering into an illegal agreement.
>
> "Conceding that in ordinary cases an instrument executed under duress is voidable, not void . . . this cannot be so if the effect would be to give life and substance to an illegal contract.
>
> "In the case before us the release alleged to have been signed under duress enters into and forms an integral part of an agreement alleged to be illegal because establishing a monopoly in restraint of interstate trade . . ." (R. 74).
>
> . . . . . .
>
> "We hold that the validity of the contract is the primary issue to be tried . . ." (R. 75).

It has already been pointed out, possibly with tiresome iteration, that there are no allegations showing illegality inherent in the contract itself. The court, however, saw fit to go further than the pleader and supply allegations which he chose not to make. The statement that the contract was "alleged to be illegal because establishing a monopoly" (which is not true) can be explained only upon the theory that the court confused the Raytheon *tube* license containing the release with one of the restrictive *set* license contracts, made by the petitioner with third parties, by which the petitioner's monopoly was alleged to have been created and upon which the respondent based its affirmative cause of action and claim for damages.

This interpretation of the pleadings is demonstrably erroneous. The monopoly upon which the respondent's cause of action is based is alleged to have become effective in 1927, and it is specifically charged that by the end of 1927 and early part of 1928 the effect of the alleged monopoly had been completely to destroy the respondent's business (paragraph 34 of each count, R. 10, 20). Furthermore, it is expressly stated in the respondent's disclaimer (R. 12-13) that its cause of action was complete and wholly existed prior to May, 1928. The Raytheon tube license and release, on the other hand, was not executed until March, 1929 (R. 28, 42, 52), a year after the perfection of the alleged monopoly and a year after the respondent's cause of action became complete. It is a factual impossibility on the record to suggest, as the Circuit Court of Appeals has done, that the release contract formed any part of the respondent's cause of action, or that it contributed to the creation of the monopoly which destroyed the respondent's business a year before it was executed.*

* The distinction between the Raytheon *tube* license containing the release (executed in 1929) and the *set* licenses alleged to have been issued to third parties in 1927, the latter contracts alone con-

The misconception into which the court fell probably had its rise in certain statements contained in respondent's brief below. It is there suggested, without reference to any of the specific allegations of the declaration, that the release constituted some part of the supposed conspiracy to monopolize. One of these statements is quoted in the respondent's brief in opposition to the petition for certiorari, where (p. 3) it is said:

> "The plaintiff says (not that a monopolizing corporation is an outlaw for which a court will not enforce a contract—but—) that 'it is contrary to public policy for a court of *law* of the United States to assist a wrongdoer to carry out his plot to restrain commerce and obtain a monopoly by enforcing for the wrongdoer a release obtained by the duress upon the releasor of the illegal monopoly which the release has created; it is not that the releasor seeks the assistance of a court to cancel the release; it is that the release is initially void' (Plaintiff's Brief in C.C.A. p. 6; Opinion R. 80 line 28, 81 lines 8 and 24, 82 line 2; Declaration para. 35-40, R. 21, 22)."

But enforcing the release could not possibly "assist" petitioner "to carry out his plot" when it is alleged the plot was completely carried out and the cause of action had accrued a year before the release was signed. The further statement that the release was "obtained by the duress . . . of the illegal monopoly which the release has created" is an absurdity on its face. It is a statement that *the release itself compelled its own execution.*

The Circuit Court of Appeals has decided the case upon a theory of illegality which not only is unsound but which is not even presented by the pleadings.

---

taining the "tying clauses," known as "Clause 9," upon which plaintiff predicates its claim to monopoly, has already been pointed out (*supra*, footnote, p. 4).

(e) *Summary.*

We do not contend that (accepting the allegations of the pleadings) the respondent was from the outset without any remedy, or that the release contract which the respondent itself sets up was originally proof against all attack.

We do contend, however, that the issue presented upon the pleadings was simply whether the respondent might avoid the release for duress. There was no issue tendered of illegality inherent in the contract containing the release which would render it void *ab initio*. Whatever issue of illegality appeared from the pleadings was illegality *dehors* the instrument which under well-established rules of law could do no more than render the contract voidable.

The respondent could not with honesty make allegations showing illegality in the contract, and it did not do so. But it has with great skill succeeded in coaxing the court below into construing allegations looking toward voidability as allegations flatly charging illegality. When the case was heard in the District Court the question was whether, under *Hartshorn* v. *Day*, 19 How. 211; *George* v. *Tate*, 102 U.S. 564, and similar cases, the rescission of a sealed instrument could be tried at law or must go to the equity side. The district judge squarely met that issue and ruled upon it. The Circuit Court of Appeals sought to evade it by torturing the allegations actually made into something quite different. In so doing it committed serious error. If the petitioner is forced to trial to a jury with the opinion unchanged, it will be greatly handicapped and a false issue must be tried. The true issue still remains that of whether the respondent may now exercise an election to avoid its release.

II.

An issue as to the rescission of an instrument under seal, especially where the contract has been executed, is triable in equity. The District Court properly ordered that the case be transferred to equity for preliminary hearing.

(*a*) *Under the decisions of this Court in* Hartshorn *v.* Day, *19 How. 211, and* George *v.* Tate, *102 U.S. 564, a sealed instrument may be rescinded only in equity.*

For the reasons pointed out in the first section of this brief the petitioner submits that no issue is raised as to the legality of the release contract. On the pleadings this contract is not void, but is at most voidable for duress. The respondent's attempt to repudiate the contract, therefore, is in legal effect an attempt to obtain rescission. Such rescission can be granted only in equity.

In *Hartshorn* v. *Day,* 19 How. 211, and *George* v. *Tate,* 102 U.S. 564, this Court held that fraud in the inducement of a contract, that is to say, fraud rendering the contract not void but merely voidable, could not be set up against a sealed* instrument except in equity. In *Hartshorn* v. *Day,* the Court said (19 How. 211, 222-223):

---

* In the Circuit Court of Appeals the respondent for the first time raised a question whether the contract containing the release should have been treated as a contract under seal. This question, however, was not raised in the District Court. The Circuit Court ruled that it could not be raised for the first time on appeal (R. 72). This ruling was plainly correct. The petitioner's motion for transfer set out that the release was under seal by adoption (R. 29), and the respondent did not contest the point. The court inspected the contract before granting the motion (R. 41) and accepted it as a sealed instrument. Since the principal license agreement, containing a full release of all claims by the licensee (the real party in interest here—R. 12-13), was under the seal of all parties, including Raytheon Manufacturing Company (R. 52), the District Court could not have done otherwise than treat it as a sealed instrument. And in view of the fact that the modifying agreement was under the seal of one party (R. 54) and the further fact that by New York

"The general rule is, that in an action upon a sealed instrument in a court of law, failure of consideration, or fraud in the consideration, for the purpose of avoiding the obligation, is not admissible as between parties and privies to the deed; and, more especially, where there has been a part execution of the contract. The difficulties are in adjusting the rights and equities of the parties in a court of law; and hence, in the States where the two systems of jurisprudence prevail, of equity and the common law, a court of law refuses to open the question of fraud in the consideration, or in the transaction out of which the consideration arises, in a suit upon the sealed instrument, but turns the party over to a court of equity, where the instrument can be set aside upon such terms as, under all the circumstances, may be equitable and just between the parties. A court of law can hold no middle course; the question is limited to the validity or invalidity of the deed.

---

law a sealed instrument cannot be modified except by an instrument also under seal (*Cammack* v. *Slattery & Bro. Inc.*, 241 N.Y. 39, 148 N.E. 781), the court was plainly justified in treating this agreement, which in effect formed part of the original sealed contract, as being itself under Raytheon's seal by adoption, especially where the respondent did not contest but apparently conceded the point.

The respondent attempts to rely on Massachusetts General Laws (Ter. Ed.) c. 231, sec. 34, on the theory that allegations in the answer are deemed denied without the necessity of a replication (see Respondent's brief in opposition to petition for certiorari, p. 5). But this statute is of no assistance to the respondent in any event, because the respondent here filed a replication (incorporating it in its declaration) which set up duress, but was silent on the question of seals. Under Massachusetts practice, where a replication is filed putting in issue only certain matters raised in the answer, the matters omitted would not be deemed to be denied. They would be taken as admitted. *Friend* v. *Pettingill*, 116 Mass. 515, 518. *Murphy* v. *People's Equitable Mutual Fire Ins. Co.*, 7 Allen, 239.

"Fraud in the execution of the instrument has always been admitted in a court of law, as where it has been misread, or some other fraud or imposition has been practiced upon the party in procuring his signature and seal. The fraud in this aspect goes to the question whether or not the instrument ever had any legal existence."

In *George* v. *Tate* the Court said (102 U.S. 564-570):

"It is well settled that the only fraud permissible to be proved at law in these cases is fraud touching the execution of the instrument, such as misreading, the surreptitious substitution of one paper for another, or obtaining by some other trick or device an instrument which the party did not intend to give."

Hogg v. *Maxwell,* 218 Fed. 356 (C.C.A. 2).
Whitcomb v. *Schultz,* 223 Fed. 268 (C.C.A. 2); certiorari denied, 238 U.S. 632.
Massachusetts Protective Assn. v. *Kittles,* 2 F. (2d) 211 (C.C.A. 5).
Pringle v. *Storrow,* 9 F. (2d) 464 (D.C. Mass.).
See also *Keatley* v. *U.S. Trust Co.,* 249 Fed. 296 (C.C.A. 2); certiorari granted, 247 U.S. 511; withdrawn, 254 U.S. 658.

The Circuit Court of Appeals apparently conceded that the rule enunciated in *Hartshorn* v. *Day* and *George* v. *Tate* as applied to cases of fraud would apply equally to cases involving duress (R. 71). Duress is equivalent to fraud in its effect upon the validity of a contract obtained by its means. As pointed out by Mr. Justice Holmes in *Fairbanks* v. *Snow,* 145 Mass. 153, 154:

"Again, the ground upon which a contract is voidable for duress is the same as in the case of fraud; and is,

that, whether it springs from a fear or from a belief, the party has been subjected to an improper motive for action."

It is well settled that duress falling short of actual physical compulsion, like fraud in the inducement, renders a contract voidable and subject to rescission, but not void.

Barnette v. *Wells Fargo Bank,* 270 U.S. 438, 444, *supra.*
Willett v. *Herrick,* 258 Mass. 585, 603, *supra.*

At common law, duress falling short of actual physical compulsion was not recognized as a ground for avoiding a deed. As stated by Powell, Justice, in *Sumner* v. *Ferryman* (1709), 11 Mod. 201, 203):

"A man cannot avoid his bond by duress to his goods, but only to his person."

See also *Atlee* v. *Backhouse* (1838), 3 M. & W. 633, 650.
Sheppard's Touchstone, 61.
Brown v. *Pierce,* 7 Wall. 205, 214, 215.

At an early date, however, equity assumed a jurisdiction to relieve against legally unimpeachable bonds and contracts where obtained through a trading upon the economic necessities of an improvident plaintiff.

Vere Essex, Earl of Ardglasse, v. *Muschamp* (1684), 1 Vern. 237.
Earl of Chesterfield v. *Janssen* (1750), 1 Atk. 301.
Lamplugh v. *Cox* (1769), Dick. 411.

"Economic duress" has latterly been adopted as a convenient name for this practice of using the practical busi-

ness necessities of the improvident or unfortunate to obtain an unconscionable legal advantage. But it is important to bear in mind that the words refer simply to the age-old practice against which the law gave no relief, and that, though the language of the law is used, it refers to an equitable jurisdiction.

Thus at the time that the Constitution was adopted providing for a federal judicial power extending "to all cases, in law and equity" (art. III, sec. 2), it seems to have been settled that "economic duress" could not be set up against a sealed instrument in a court of law, but only in a court of equity.

This Court has often stated that the essential distinction between law and equity, as thus established in English jurisprudence, forms the basis for the distinction between law and equity as preserved in the federal courts.

> *Bennett* v. *Butterworth,* 11 How. 669.
> *Fenn* v. *Holme,* 21 How. 481.
> *Thompson* v. *Central Ohio R. Co.,* 6 Wall. 134.
> *Lindsay* v. *First Nat'l Bank of Shreveport,* 156 U.S. 485, 493.
> *Liberty Oil Co.* v. *Condon National Bank,* 260 U.S. 235, 243, *supra.*

It follows, therefore, that the distinction between law and equity which was recognized by this Court with respect to instruments under seal in *Hartshorn* v. *Day* and *George* v. *Tate* exists also in cases involving "economic duress" as well as fraud.

It was at one time suggested that the passage of section 274 (b) of the Judicial Code permitting equitable defenses to be raised in actions of law had the effect of converting equitable defenses into legal ones, thereby abrogating the

distinction between law and equity in cases of sealed agreements.

See *Columbia-Knickerbocker Trust Co.* v. *Abbott*, 247 Fed. 833, 837 (C.C.A. 1, 1917).

All questions as to the effect of section 274 (b) were, however, set at rest by the decision of this Court in *Liberty Oil Co.* v. *Condon National Bank*, 260 U.S. 235, *supra*. It was there held that, under section 274 (b), equitable defenses were not changed into legal ones, but that, on the contrary, the distinction between law and equity, as existing at the time when the Constitution and the Seventh Amendment were adopted, is fully preserved (260 U.S. 235, 242-243).

Union Pacific R.R. v. *Syas*, 246 Fed. 561 (C.C.A. 8).

The respondent contends, however, that *Hartshorn* v. *Day* and *George* v. *Tate*, although never expressly overruled, have been impliedly overruled by subsequent decisions of this Court. One line of cases particularly relied on includes *Insurance Co.* v. *Bailey*, 13 Wall. 616; *Cable* v. *U.S. Life Ins. Co.*, 191 U.S. 288, and culminates in the recent decisions of this Court in *Enelow* v. *New York Life Ins. Co.*, 293 U.S. 379, and *Adamos* v. *New York Life Ins. Co.*, 293 U.S. 386.

It was held in these cases that fraud in the procurement of a life insurance policy could be set up as a legel defense in an action at law upon the policy. But it is plain that, since ordinary insurance policies are not specialties, these cases are in no way inconsistent with the rule laid down in *Hartshorn* v. *Day* and *George* v. *Tate* as applicable to sealed instruments. This was expressly pointed out in—

Hogg v. *Maxwell*, 218 Fed. 356, 358 (C.C.A. 2), *supra*.

Where an insurance policy, contrary to the ordinary practice, is executed as a specialty, the rule of *Hartshorn* v. *Day* does apply and the issue is equitable.

Massachusetts Protective Ass'n v. *Kittles*, 2 F. (2d) 211 (C.C.A. 5), *supra*.

A late case illustrating the distinction is—

Dunn v. *Prudential Ins. Co. of America*, 8 Fed. Supp. 799 (D.C. Minn.).

The respondent also relies upon the decision of this Court in *American Mills Co.* v. *American Surety Co.*, 260 U.S. 360. That case was a suit in equity to cancel a contract of guaranty on the ground of fraud. Although the fact is not so stated in the report of the case in this Court, it has been said that that case involved a bond (see *Nat'l Aniline & Chemical Co.* v. *Arnhold*, 298 Fed. 755, 756 (D.C. N.Y.)). The question raised in this Court was whether or not the defendant had waived its objection to the equity suit on the ground that there was an adequate remedy at law by failing to press the objection in the trial court. It was held that the objection had been waived and a decree for the plaintiff was affirmed. Thus the result of the case is in no way inconsistent with the result for which the petitioner contends in this case. The respondent, however, relies upon the following statement appearing in the opinion (260 U.S. 360, 363):

> "It is conceded by the respondent that its bill in equity in the District Court should have been dismissed because it had an adequate remedy at law. The cases of *Insurance Co.* v. *Bailey*, 13 Wall. 616, 622, and *Cable* v. *United States Life Insurance Co.*, 191 U. S. 288, 306, 307, settle that. Respondent therefore relies solely

on the waiver of this defect by the Mills Company in doing what it did in the District Court."

The petitioner submits, however, that this statement by the Court, which in no way affected the result of the case, and which furthermore was based upon a point conceded by counsel, does not mean that this Court was then overruling its earlier decisions of *Hartshorn* v. *Day* and *George* v. *Tate*. No question was raised as to the possible effect of a seal. Neither *Hartshorn* v. *Day* nor *George* v. *Tate* was cited. Apparently the point was entirely overlooked by counsel, who assumed that the case was governed by decisions relating to unsealed instruments, and, on that assumption, conceded the point. This Court merely adopted this assumption and concession. The decision stands on no different footing from the decisions in the *Cable* case and the *Bailey* case, and cannot be regarded as having overruled *Hartshorn* v. *Day* or *George* v. *Tate*.* Such was the conclusion reached by Judge Lowell in *Pringle* v. *Storrow*, 9 F. (2d) 464, 467 (D.C. Mass.), *supra*.

Another line of cases upon which the respondent placed reliance in the court below and which may be referred to by it here are cases involving fraud in the *execution* of an instrument, that is to say, fraud preventing the existence of any contract at all, such as the substitution of one paper for another by trick. Such fraud, however, has always been admissible in a court of law even as against a sealed instrument. Indeed, this rule was specifically affirmed in

* Neither is there anything inconsistent with the continued authority of these cases in later decisions of this Court in cases where, through the nature of the proceedings involved, the distinction between law and equity did not obtain. See, for example, *Pacific Mails S.S. Co.* v. *Lucas*, 258 U.S. 266 (Admiralty); *Hartsville Mill* v. *United States*, 271 U.S. 43 (Court of Claims); *Snyder* v. *Rosenbaum*, 215 U.S. 261 (Territorial Court, see U.S. Code, Title 48, sec. 1464).

Hartshorn v. *Day* and *George* v. *Tate,* as appears in the portions of the opinions which are quoted above (*supra,* pp. 27, 28). Cases holding that fraud in the execution of a contract may be shown at law even in the case of a sealed instrument are, therefore, entirely consistent with those decisions.

It is true that in many instances the distinction between fraud in the execution of a contract and fraud in the inducement of a contract has little practical importance. Accordingly it has sometimes been doubted whether the distinction any longer possesses a substantial basis. See *Wagner* v. *National Life Ins. Co.,* 90 Fed. 395 (C.C.A. 6); *Skinkle* v. *Lehigh Valley R. Co.,* 3 Fed. Supp. 326, 327 (D.C. E.D. N.Y.). The Circuit Court of Appeals here stated that the distinction has become worthless (R. 71).

A moment's consideration will show, however, that the distinction is one which may be of great practical importance, not because of the character of the fraud involved, but because of the distinction between a contract which is void and one which is merely voidable and subject to rescission upon equitable principles. Thus in this case, if the respondent's release was illegal and so void *ab initio,* the later dealings between the parties are wholly immaterial. If, however, it was no more than voidable, those later dealings, involving, as we submit, a free election to confirm the contract, are of the utmost importance on the focal question of whether it now may be avoided. Hence in cases of fraud the difference between the kind of fraud which will render a contract void and the kind of fraud which will render a contract voidable only is one which cannot be overlooked or disregarded.

The petitioner submits, therefore, that the cases of *Hartshorn* v. *Day* and *George* v. *Tate* have never been overruled, and that the rule enunciated in those cases is still the law in the federal courts. This would apply in the present case

in view of the fact that at common law economic duress was not admissible to avoid a sealed instrument, but was cognizable only in equity. To overturn this rule would run counter to the well-settled principle, stated in many earlier cases and reiterated in *Liberty Oil Co.* v. *Condon National Bank,* 260 U.S. 235, 243, *supra,* that the distinction between law and equity as preserved in the federal courts is based upon the practice in courts of law and chancery in England at the time of the establishment of the federal judicial system under the Constitution.

In this connection it should be observed that, by virtue of sections 274 (a) and (b) of the Judicial Code, in the practice established thereunder providing for a "change from a suit at law to one in equity and the reverse with as little delay and as little insistance on form as possible" (*Liberty Oil Co.* v. *Condon National Bank,* 260 U.S. 235, 244, *supra*), the strongest argument formerly urged against maintaining the established distinction between law and equity has been removed. Prior to the passage of this section it was natural that the courts, solicitous to alleviate the hardship of multiplicity of suits and circuity of action attendant upon a strict distinction between law and equity, should have tended to blur the distinction between law and equity by extending legal jurisdiction to matters previously regarded as equitable (compare *Wagner* v. *Nat'l Life Ins. Co.,* 90 Fed. 395, 404 (C.C.A. 6) *supra*).

(*b*) *Rescission of the present contract presents questions of laches, ratification, change of position and balancing of equities generally, which cannot be dealt with appropriately, except in equity.*

The equitable nature of the issue does not depend simply upon the fact that the release was a sealed instrument. Sealed or unsealed, what the respondent sought to do was

to rescind the tube license agreement containing it. Rescission is primarily an equitable jurisdiction even though it is now also exercised by courts of law to a limited extent. But that exercise can only be in appropriate cases—ones where it is practically possible for a jury to act upon the issue.

A jury verdict cannot appropriately balance the equities between the parties where rights have arisen under the contract sought to be rescinded. This was recognized by this Court in *Hartshorn* v. *Day* (see p. 27, *supra*).

> *Pacific Mutual Life Ins. Co.* v. *Webb*, 157 Fed. 155, 158-159 (C.C.A. 8):
>
> "The rescission of the deed of release sought to be accomplished in this case is essentially and traditionally an equitable remedy. It is peculiarly appropriate for the consideration of a chancellor and not of a jury. It depends in many cases upon the exercise of a wise discretion in the light of countervailing equities; is frequently awarded on conditions imposed in the final decree, and only when the remedy is invoked without unreasonable delay. The proof justifying it must be clear, convincing, and unequivocal. In view of these rules governing the administration of an equitable remedy, it is apparent that an action at law which is governed by more inflexible rules is not well adapted to administer that remedy. So manifest is this that rescission of contracts for fraud has, time out of mind, been a well-recognized subject of equitable cognizance." *
>
> *Levi* v. *Mathews*, 145 Fed. 152 (C.C.A. 4).
> *Cook* v. *Fidelity & Deposit Company of Md.*, 167 Fed. 95 (C.C.A. 9).

---

* Mr. Justice (then Circuit Judge) Van Devanter concurred in this opinion.

Standard Portland Cement Co. v. *Evans,* 205 Fed. 1 (C.C.A. 9).

Union Pacific R.R. Co. v. *Syas,* 246 Fed. 561 (C.C.A. 8), *supra.*

Fay v. *Hill,* 249 Fed. 415 (C.C.A. 8).

In the present case the release which respondent now seeks to avoid formed an integral part of an elaborate patent license agreement granted by the petitioner nearly a year after the respondent's alleged cause of action for damages is stated to have accrued. Respondent has received full benefit therefrom (R. 31, 32). Its Delaware subsidiary, for whose benefit it alleges that the present action is brought, has actually obtained a decree from the Supreme Judicial Court of Massachusetts enjoining the petitioner from terminating that very license agreement (286 Mass. 84). The present suit amounts in substance to an attempt by the respondent to disaffirm simply that portion of the agreement which imposes a burden upon it (namely, the release clauses), while it retains, and in fact insists on retaining, all the benefits conferred by the remainder of the agreement.

Whether the respondent under these circumstances, in the face of the benefits which it has received and the injunction which it has caused to be procured, can now disaffirm the contract obviously presents practical issues for the determination of a court of equity, including such problems as laches, election of remedies, ratification, change of position, restoration of benefits and balancing of equities generally.

American Shipbuilding Co. v. *Commonwealth S.S. Co.,* 215 Fed. 296, 301 (C.C.A. 6).

Although respondent's refusal to proceed in equity (R. 38-39, 56-60) prevented actual trial on these issues in equity, the issues were nevertheless in the case for trial (R.

31-34), and therefore necessitated the retention of the case in equity until they were finally disposed of by a final decree on the question of rescission of the contract (R. 40).

(c) *The order for transfer was proper.*

In the present case it must be remembered that it was the respondent itself (plaintiff below) which first raised the issue of the release in the pleadings. Respondent's own declaration as amended by its disclaimer (R. 12) contains three distinct elements:

1. An allegation that respondent has a cause of action under the anti-trust laws for damages against the petitioner.

2. An allegation that, after this cause of action had accrued, the respondent accepted a license from the petitioner and executed a release of its claims (Declaration, paragraphs 35 and 36 of each count, R. 10, 20, 21; Disclaimer, R. 12, 13).

3. An allegation that this release was "void" by reason of duress (Declaration, paragraph 37 of each count, R. 10, 21), followed by the allegation that respondent is entitled to recover upon the original cause of action notwithstanding the release.

Respondent, in other words, in its own pleadings first sets up the release and then seeks to allege facts justifying its avoidance. Viewing the situation most favourably from respondent's point of view, the declaration seeks, first, to have the release avoided and rescinded (a matter of purely equitable cognizance), and second, to recover at law for damages after the release is out of the way.

Prior to the passage of section 274 (b) of the Judicial Code, the respondent would have had to resort to a separate bill in equity in order to rescind the release contract.

Whitcomb v. *Schultz*, 223 Fed. 268 (C.C.A. 2); certiorari denied, 238 U.S. 632, *supra*.

Under section 274 (b) the necessity for a separate suit is removed.*

In *Liberty Oil Co.* v. *Condon National Bank*, 260 U.S. 235, *supra*, this Court held that the effect of section 274 (b) was not to convert equitable issues into legal ones. On the contrary, it was held that when, under this section, an equitable issue is raised by the pleadings in a law action, the case is automatically transformed, *pro tanto*, into a case in equity. When this situation occurs, the Court stated that the better practice is to order a transfer of the case to the equity side for hearing (p. 241). This practice was followed here.

It was proper for the petitioner to raise the point by its motion.

> *Union Pacific R.R. Co.* v. *Syas*, 246 Fed. 561 (C.C.A. 8), *supra*.

Indeed, if the petitioner had failed to raise the question, it would have run the risk of waiving it.

> *Union Pacific R.R. Co.* v. *Whitney*, 198 Fed. 784 (C.C.A. 8).
>
> *Whitney Co.* v. *Johnson*, 14 F. (2d) 24 (C.C.A. 9); certiorari denied, 273 U.S. 734.

---

* The conclusion of the majority of the court in *Keatley* v. *United States Trust Co.*, 249 Fed. 296 (C.C.A. 2); cert. granted, 247 U.S. 511, dismissed on petitioner's application, 254 U.S. 658, with respect to equitable issues raised by replication, clearly is not now law. It preceded *Liberty Oil Co.* v. *Condon Nat'l Bank*, 260 U.S. 235. There is nothing in the opinion in that case to justify a distinction based solely upon the fact that the equitable issue is raised by replication. It is flatly contrary to *Union Pac. R.R.* v. *Syas*, 246 Fed. 561 (C.C.A. 8), which has been cited with complete approval by this Court as lately as *Enelow* v. *New York Life Ins. Co.*, 293 U.S. 379, 384. See also *Stamey* v. *United States*, 37 F. (2d) 188 (D.C. Wash.).

The respondent contends that the petitioner's motion to transfer was wrongly granted because its effect was to force the respondent to resort to equity against its will. This argument overlooks the fact that the respondent was already in equity before the order was granted. Under the *Liberty Oil Co.* case, if the pleadings raise an equitable issue, the case becomes *pro tanto* an equity case *as soon as the pleadings are completed.* In that case this result was held to follow even though no formal order of transfer was ever entered. It follows, therefore, that since the legal effect of the respondent's pleadings in this case was to raise an equitable issue, it was these pleadings themselves, drafted by its own counsel, not the order for transfer, which put the respondent into equity.

(*d*) *No error appears in the subsequent proceedings.*

The issue being equitable, the respondent had no right to claim trial by jury. Its motion for jury issues in equity (R. 31) was addressed to the discretion of the court, and the denial of the motion presents no question for review.

Schnaubert v. *Tippett,* 29 F. (2d) 230 (C.C.A. 5).
Miller v. *Pyrites Co.,* 71 F. (2d) 804, 808 (C.C.A. 4); certiorari denied, 293 U.S. 604.

The respondent's subsequent motion to rescind the order of transfer and disclaimer of equitable relief (R. 36) did not affect the situation. By disclaiming relief in equity, the respondent could not acquire the right to obtain relief at law on an equitable issue.

The final decree, entered on the respondent's own motion (R. 38, 40), was correct. The equitable issue presented was a preliminary question to be tried before the case proceeded at law. As stated by this Court in the *Liberty Oil* case (260 U.S. 235, 242):

"Where an equitable defense is interposed to a suit at law, the equitable issue raised should first be disposed of as in a court of equity, and then if an issue at law remains, it is triable to a jury."

The respondent was offered an opportunity to try the question in the proper forum. Whether the opportunity was desired or not, the respondent was not prejudiced by having had it. When the respondent refused to accept the opportunity and stated that it had no evidence to offer (Respondent's Motion for Final Decree, paragraph 3, R. 38), the court had no alternative but to enter a decree affirming the validity of the release.

The respondent's position was that it *would* not go forward in equity. It hazarded its entire case upon its contention, which had been rejected when the order for transfer was entered, that it was entitled to litigate the equitable issue of rescission at law. If it could not do that, it preferred to lose the case then and there rather than to try the preliminary issue in equity.

It was necessary to have some decree which would terminate the equitable issue which the respondent had injected into the case.

Union Pacific R.R. v. *Syas*, 246 Fed. 561 (C.C.A. 8), *supra.*

The issue could be resolved in only one of two ways, either by an avoidance of the tube license agreement containing the release, or by a declaration that it was valid. Since the respondent chose not to offer evidence on which the former alternative might be taken, the court of necessity was forced to enter a decree confirming the release.

Conclusion.

In this case respondent seeks to recover enormous damages at law upon a cause of action which (according to its own pleadings) it released after that cause of action had accrued. It seeks to avoid its release by an allegation (in the pleadings) of duress through economic pressure and by an argument (not presented in the pleadings, and in fact demonstrated by the pleadings to be unsound) that the release was "illegal." It seeks to accomplish all this without restoring the petitioners to the status quo, without returning, or offering to return, the benefits conferred by the license of which the release formed a part, and in the face of its own election to affirm that license, strikingly manifested by a state court decree which enjoins the termination of that license. When confronted with the opportunity of offering evidence (in equity) to support its extraordinary claims, it announced in open court that it had none to offer, made confession of default, and itself moved for the entry of the final decree from which it immediately appealed.

Under these circumstances, we respectfully submit that the District Court, both when it ordered the original transfer to equity and when it entered the decree now under review, acted in the only possible way. The decree of the District Court should accordingly be affirmed, and that of the Circuit Court of Appeals should be reversed.

Respectfully submitted,

JOHN W. DAVIS,
JOHN L. HALL,
MANTON DAVIS,
CLAUDE R. BRANCH.